Mr. Speaker, my vote was not recorded on rollcall No. 56 on H. Res. 595, the Rule providing for consideration of both H.R. 1675, Encouraging Employee Ownership Act of 2015 and H.R. 766, Financial Institution Customer Protection Act of 2015. I am not recorded because I was absent due to the birth of my son in San Antonio, Texas. Had I been present, I would have voted "nay."

ENCOURAGING EMPLOYEE OWNERSHIP ACT OF 2015

GENERAL LEAVE

Mr. HENSARLING. Mr. Speaker, I ask unanimous consent that all Members may have 5 legislative days within which to revise and extend their remarks and submit extraneous materials on the bill, H.R. 1675, to direct the Securities and Exchange Commission to revise its rules so as to increase the threshold amount for requiring issuers to provide certain disclosures relating to compensatory benefit plans.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Texas?

There was no objection.

The SPEAKER pro tempore. Pursuant to House Resolution 595 and rule XVIII, the Chair declares the House in the Committee of the Whole House on the state of the Union for the consideration of the bill, H.R. 1675.

The Chair appoints the gentleman from Pennsylvania (Mr. THOMPSON) to preside over the Committee of the Whole.

□ 1402

IN THE COMMITTEE OF THE WHOLE

Accordingly, the House resolved itself into the Committee of the Whole House on the state of the Union for the consideration of the bill (H.R. 1675) to direct the Securities and Exchange Commission to revise its rules so as to increase the threshold amount for requiring issuers to provide certain disclosures relating to compensatory benefit plans, with Mr. THOMPSON of Pennsylvania in the chair.

The Clerk read the title of the bill.

The CHAIR. Pursuant to the rule, the bill is considered read the first time.

The gentleman from Texas (Mr. HENSARLING) and the gentlewoman from California (Ms. MAXINE WATERS) each will control 30 minutes.

The Chair recognizes the gentleman from Texas.

Mr. HENSARLING. Mr. Chairman, I yield myself such time as I may consume.

Mr. Chairman, I rise in strong support of H.R. 1675, the Encouraging Employee Ownership Act.

I do this because, as you know, Mr. Chairman, regrettably, we saw that in the last quarter this economy grew at a paltry seven-tenths of 1 percent. On an annualized basis, this economy is limping along at roughly half the normal growth rate.

That means that this economy is not working for working families, who under 8 years of Obamanomics have found themselves with smaller paychecks and smaller bank accounts and greater anxiety about how are they going to make their mortgage payments, how are they going to make their car payments, are they going to be able to save enough to send somebody to college.

This economy is still underperforming for American families. So it is critical that we help our small businesses, which are truly the job engine in our economy, Mr. Chairman, as you well know.

I want to commend the sponsors of the five bills that make up H.R. 1675, Representatives HULTGREN, HILL, HUIZENGA, and HURT. Their work has resulted in a bipartisan bill that we think will help create a healthier economy.

Again, we know that 60 percent of the Nation's new jobs over the past couple decades have come from our small businesses. If we are going to have a healthier economy that offers more opportunity, we have to offer more opportunities for small business growth and small business startups. We have to ensure that they have capital and the credit they need to grow. You can't have capitalism without capital, Mr. Chairman.

Yet, we have heard from countless witnesses in our committee—from community banks to credit unions, the primary source of small business loans—that they are drowning, drowning in a sea of complex, complicated, expensive regulations, many of them emanating from the Dodd-Frank Act, which is causing a huge burden on the economy and working families.

The same is true of many of our burdensome security regulations as well. Many of them are well intentioned, but, Mr. Chairman, they were written with our largest public companies in mind, but they end up hurting our smaller companies. It is time that we help level that playing field for small businesses with smarter regulations that will still maintain our fair and efficient markets, protect investors, but allow small competitors the chance to succeed. We make some progress today on this bipartisan bill, H.R. 1675.

Now, it is a modest bill, Mr. Chairman. It is only 20 pages long—anybody can read it—but it provides many overdue improvements that will help spur capital formation, and the legislation gives companies options and choices on how to best attract investment and capital. In a free society, isn't that where we should be?

It updates rules to allow small businesses to better compensate their employees with ownership in the business. Let them have a piece of the American Dream. In so doing, it strengthens provisions enacted into law in the bipartisan JOBS Act and the FAST Act to give employees a greater opportunity to share in the success of their employer.

It codifies no action relief issued by the SEC to remove regulatory burdens for individuals who assist with the transfer of ownership of small- and mid-sized privately held companies.

It will provide investors with more research on exchange-traded funds, or ETFs, by extending a liability safe harbor consistent with other securities offerings.

It provides a voluntary, Mr. Chairman—I repeat voluntary—exemption from reporting in XBRL data format for emerging growth companies and smaller public companies, the cost and use of which have continually been questioned in our committee.

The committee received testimony from a biotechnology executive who said that outreach to his analyst investors yielded a consensus response that they weren't even aware of XBRL, but the witness went on to say that his company is having to spend $50,000 annually in compliance costs that obviously could have been better spent in productivity and job creation.

Finally, it requires the SEC to conduct a retrospective review every 10 years to update or eliminate outdated, unnecessary, and duplicative regulations. This is also known, Mr. Chairman, as common sense. The administration claims that this provision is duplicative because the SEC is already encouraged to review their regulations. Well, encouragement doesn't quite get the job done. We need to ensure that these regulations are looked at and at least looked at on an every-decade basis.

You will hear some say that, well, the SEC's resources are stretched too thin. I am happy to go back and amend Dodd-Frank so that they have more resources to devote to capital formation. By the way, they just got a big, fat raise in the latest omnibus. Mr. Chairman, I don't think that argument holds much water.

By enacting H.R. 1675, we are going to ease the burdens on small businesses and job creators. Isn't that what we ought to be about? We will help foster capital formation so that Americans can go back to work, have better careers, pay their mortgages, pay their healthcare premiums, and ultimately give their families a better life.

I urge my colleagues to join me in supporting H.R. 1675.

Mr. Chairman, I reserve the balance of my time.

Ms. MAXINE WATERS of California. Mr. Chairman, I yield myself such time as I may consume.

Mr. Chairman, I rise today in strong opposition to H.R. 1675. It is really a package of five bills which will harm investors and, perversely, the very small businesses Republicans say they want to help. It does so by ignoring and supplanting the good judgment of the Securities and Exchange Commission, which has already sought to provide small businesses with regulatory relief in these same areas while also ensuring that investors in those businesses have the protections they deserve.

The SEC's balanced approach makes sense as investors who are not confident in the integrity of our markets

will simply not invest, which means that job-creating companies will not have the capital they need to grow. In particular, this bill would reduce corporate transparency for employee stockholders by allowing private companies to compensate their employees with up to $10 million in stock every year without having to provide them with relatively simple disclosures about the financials of the company or the risk associated with these securities.

Mr. Chairman and Members, I am not going to attempt to hide the facts of this bill with a lot of rhetoric. The fact of the matter is, if employees are being given stock up to $10 million that they don't know the value of, and the companies don't have to disclose anything about the stock, they could end up with worthless stock, not worth anything, where they had great expectations that somehow in lieu of raises and more money that they probably deserve, they are being given rotten stock.

This provision would double the current disclosure threshold, allowing larger companies with at least $34 million in total assets to encourage overinvestment by employees in a company that they cannot value and that may never permit them to sell except back to the company at a price set by the company. That is another aspect of this.

This type of deregulation invites more Enron-type fraud into the market. Remember Enron? I hope we have not forgotten it already and what happened to those employees. Sometimes you had two members of the family, the husband and the wife, who both had this bad stock that they couldn't sell back, they couldn't do anything with, where employees have to trust the accounting of their companies but instead are left with valueless stock.

Similarly, this bill would exempt over 60 percent of public companies from using a computer-readable format known as XBRL in their SEC filings. Exempting such a large number of filers would prevent these companies from being easily compared to other companies that use XBRL, to the disadvantage of analysts, researchers and the SEC, investors, and even the companies themselves.

Basically, what you are doing is saying, we are going to have a bill here that would prevent the kind of information that analysts and researchers, the SEC and investors should have, comparing them with other companies because somehow we want to protect those who don't want people to really know what their worth is.

This is very serious stuff. According to the SEC's Investor Advocate, this exemption seriously impedes the ability of the SEC to bring disclosure into the 21st century. That is their quote.

Title III of the bill further supplants the SEC's good judgment by significantly expanding the Commission's recently provided relief for certain mergers and acquisition brokers without imposing eight important investor protections granted by the SEC. As a result, bad actors who may have committed fraud and shell companies could use this relief and brokers wouldn't have to make basic disclosures about their conflict of interest.

In committee markup, Democrats attempted to close these loopholes, but our efforts were rejected in a party-line vote.

Can you imagine that the SEC has taken a big step, and they have listened to concerns, they have listened to complaints, and they have gone overboard to make sure that they were providing relief for certain kinds of mergers and acquisitions.

□ 1415

What this bill would do is take away the ability of the SEC to have investor protections that they have already been granted.

So again, this bill, which includes five bills all designed, basically, to disregard the investors, disregard the small-business people, disregard the average American citizen, is a bill that would simply go in the wrong direction, helping the corporations who would simply not want to disclose and not want to be seen for what they are.

Title II also fails to sufficiently protect investors, as it eliminates offering liability for brokers who, under the guise of providing exchange-traded funds, or ETFs, could selectively use data to promote and sell highly risky, complex, and little-known ETFs to unsuspecting investors.

Finally, the bill seeks to impose additional regulatory burdens on the SEC by requiring it to conduct a duplicative and more onerous retrospective review of its rules.

Specifically, title V would require the SEC to, within 5 years of enactment, review and revise all of its rules, which I should mention date back to 1934. It would also allow the SEC to override congressional mandates, including those in the Dodd-Frank Wall Street reform bill.

Republicans on the Financial Services Committee are always claiming that the SEC is unresponsive to Congress, yet this provision in the bill would allow the Commission to unilaterally repeal the will of Congress at their whim. Indeed, this title is a thinly veiled Republican attempt to impose cost-benefit type analyses on our regulators as a means of eliminating rules designed to benefit the public and protect investors.

H.R. 1675 is an anti-investor bill that will reduce transparency, establish additional administrative burdens on the SEC, and create easily exploited loopholes for bad actors.

It is well known that Members on the opposite side of the aisle do not like our ''cop on the block,'' which is the SEC. While they talk about what the SEC will, can, or will not do, they simply try and strangle it by being opposed to them having the adequate funding that they need in order to do their job.

So, when we hear today, for example, as the chairman said, that he would be willing to support some funding for the SEC, it is very important that they put their money where their mouths are and make sure that the SEC has the money to do its job.

In conclusion, this bill goes in the wrong direction. It is unfortunate that, at a time when we have gone through a recession based on 2008 and the unwillingness or the inability for our regulatory agencies to watch over our investors and to watch over our average small-business people and homeowners, et cetera, and while we are trying desperately to clean up this mess with Dodd-Frank reforms, we would come in here at this time, having experienced all of this, with a bill like this that would try and protect the worst actors in the financial services industry.

I urge my colleagues to oppose H.R. 1675.

Mr. Chairman, I reserve the balance of my time.

Mr. HENSARLING. Mr. Chairman, I yield 4 minutes to the gentleman from Illinois (Mr. HULTGREN), a workhorse on our committee and the chief sponsor of H.R. 1675, to bring more jobs to the American people.

Mr. HULTGREN. I thank Chairman HENSARLING for his great work on the Financial Services Committee, and I specifically want to thank him for his help on this bill coming to the floor today.

Mr. Chair, today I am very proud to speak in support of the Capital Markets Improvement Act. The bill includes a number of important titles that my colleagues on the House Financial Services Committee, Republicans and Democrats, are confident will improve our capital markets, whether it is reducing regulatory requirements for emerging growth companies subject to redundant reporting requirements to the SEC or making it easier for investors to have access to investment reports on exchange-traded funds.

This bill also includes a title I worked on diligently with Mr. DELANEY to make it easier for companies in Illinois and nationwide to let hardworking employees own a stake in the business they are part of.

The Illinois Biotechnology Industry Organization, which represents companies that employ thousands of residents in my district and throughout Illinois, believes that making it easier for companies to offer employee ownership helps Illinois businesses expand and hire more workers.

Warren Ribley, the president and CEO of iBIO, has stated:

> As someone who has worked in economic development for most of my career, I know that offering an ownership stake to employees is a critical tool in recruiting top talent to job-generating companies. And there is no doubt that an equity stake encourages employees to drive hard for success of the enterprise.

EEOA promises to aid in job creation in Illinois' growing technology sector, especially for the many early-stage companies with whom we assist along their commercialization path.

Unfortunately, some companies are shying away from offering employee ownership because of regulations that limit how much ownership they can safely offer.

SEC rule 701 mandates various disclosures for privately held companies that sell more than $5 million worth of securities for employee compensation over a 12-month period. In 1999, the SEC arbitrarily set this threshold at $5 million without a concrete explanation for why investors would face difficulties with sales above this number.

For businesses who want to offer more stock to more employees, this rule forces those businesses to make confidential disclosures that could greatly damage future innovations if they fell into the wrong hands. This required information includes business-sensitive information, including the financials and corresponding materials like future plans and capital expenditures.

The SEC originally acknowledged this, and some voiced their concern that a disgruntled employee could use this confidential information to harm their former employer. Leaving aside the risk involved in disclosing this confidential information, it is costly to prepare these disclosures just so a business can offer the benefits of ownership to their employees.

My bill is simple. It is a simple, bipartisan fix that changes that. EEOA amends SEC rule 701 to raise the disclosure threshold from $5 million to $10 million and adjust the threshold for inflation every 5 years.

To be clear, issuers that are exempt from disclosure would still have to comply with all pertinent antifraud and civil liability requirements. The employees purchasing these securities go to their business every day and already have a good sense of how their company is operating.

Support for this effort to improve the utility of rule 701 can actually be found in the SEC's own Government-Business Forum on Small Business Capital Formation Final Reports for 2001, 2004–2005, and 2013.

As the Chamber of Commerce has explained, this legislation would ''help give employees of American businesses a greater chance to participate in the success of their company.'' Increasing this threshold, they explain, would ''ensure that rule 701 remains a viable provision for businesses to use in the future'' and ''decrease the likelihood of unnecessary regulatory requirements.''

There is no evidence to suggest that rule 701 is not working for companies and their employees, and we have every reason to make this option available to more Americans with the desire to build their wealth through their company's success.

Finally, I want to underscore how important it is that the Capital Markets Improvement Act pass with a strong bipartisan vote, just like each title passed in the Financial Services Committee under Chairman HENSARLING's leadership.

My bill, the Encouraging Employee Ownership Act, had a bipartisan vote of 45–15 in committee. Mr. HILL's bill, making investment reports on ETFs more accessible, had a vote of 48–9. Mr. HUIZENGA's bill, creating a simplified SEC registration system for M&A brokers, had a vote of 36–24. Mr. HURT's bill, allowing an optional exemption for emerging growth companies for SEC reporting requirement, had a vote of 44–11. Also, Mr. HURT's bill, requiring the SEC to retroactively review regulations, had a 46–16 vote.

I urge all my colleagues to vote in support of the Capital Markets Improvement Act of 2016.

Ms. MAXINE WATERS of California. I yield 3 minutes to the gentlewoman from Ohio, (Mrs. BEATTY), a member of the Financial Services Committee.

Mrs. BEATTY. Mr. Chairman, I think it is simple today. We have heard Congresswoman MAXINE WATERS outline our position for this.

Let me just say that this bill is flawed, overly broad, avoids appropriate oversight, duplicative of existing administrative authorities, and could be wasteful and costly. I join Ms. MAXINE WATERS of California today in opposition to H.R. 1675, a package of capital market deregulatory bills that undermine the Security and Exchange Commission's effective oversight of capital markets and places the GOP special interests ahead of those hard-working Americans whom we are here to serve.

Secondly, the package also excludes exemptions from certain investor disclosures and SEC filing requirements and a safe harbor from certain broker-dealer liabilities, all without commensurate investor protections.

A key component of this package is title V, H.R. 2354, which is an unnecessary, burdensome, and unfunded mandate requiring a full-scale review designed to hamstring the SEC's ability to perform basic oversight of the financial markets.

Title III of the package exempts small business merger and acquisition brokers from registering as a broker-dealer with the SEC.

Mr. Chairman, let me sum it up by saying that the bad outweighs the good in this bill. I stand in opposition to it.

Mr. HENSARLING. Mr. Chairman, I yield 3 minutes to the gentleman from California (Mr. ROYCE), a valued member of the Financial Services Committee and chairman of the House Foreign Affairs Committee.

Mr. ROYCE. Mr. Chairman, the reason this legislation is on the floor, frankly, is because of the anemic economic growth that the United States is facing. We have got less than 2 percent economic growth. If we are going to figure out a way to get the economic engine running again, we have got to do something to remove the barriers to access to capital. That is what the Capital Markets Improvement Act attempts to do here. H.R. 2354, the Streamlining Excessive and Costly Regulations Review Act, does just that.

Let's face it, regulators aren't perfect. They are like lawmakers in that sense. Regulators have a certain obligation to examine their record to determine failures and to rectify missteps as needed.

The Streamlining Excessive and Costly Regulations Review Act will give the Securities and Exchange Commission the opportunity to do so. It would set that up on an ongoing basis. It requires a retrospective Commission review of rules and regulations that have an annual economic impact or cost of $100 million or more, result in a major increase of costs or prices for consumers, or harm the ability of U.S. enterprises to compete against foreign competitors.

Commissioners will be able to reverse ineffective, insufficient, or excessively burdensome regulations with the guidance of public notice and comment, and it ensures that the SEC isn't simply rolling out the red tape in a vacuum, oblivious to the negative economic impact that their actions have on consumers, investors, or businesses.

The success of a regulation or rulemaking shouldn't be measured in quantity. Instead, we need smart guidelines to protect our economy and preserve the world's strongest capital markets here in the United States.

Mr. Chairman, I thank the author of this bill, Mr. HURT of Virginia, for his leadership on this issue, and I urge my colleagues to join me in supporting this.

Ms. MAXINE WATERS of California. Mr. Chairman, I yield 3 minutes to the gentleman from Massachusetts (Mr. LYNCH), the ranking member of the Task Force to Investigate Terrorism Financing on the Financial Services Committee.

□ 1430

Mr. LYNCH. Mr. Chairman, I thank the gentlewoman for yielding.

It is very rare that I get to speak in opposition to such bad legislation, but not only do we have a single bill that is bad legislation, my friends across the aisle have packaged five bad bills and put them all together. My only regret is that I only have 3 minutes to speak about these bills.

Let me single one out, the Encouraging Employee Ownership Act of 2015. Currently, employee benefit plans must disclose information to employees who invest in those plans if the plan's assets are above $5 million.

H.R. 1675, the Encouraging Employee Ownership Act of 2015, now 2016, modifies SEC rule 701 by allowing private companies to compensate their employees up to $10 million, indexed for inflation.

So they can pay their employees in stock, basically. But the key here is

that they don't have to provide the same information that they would to outside investors in that same stock. Therein lies the danger here.

This means that employees in smaller companies, start-ups, especially—small drug companies, small software companies—those employees with smaller plans, oftentimes those companies are more subject to, more vulnerable to, the ups and downs of the economy. These are the most vulnerable.

So the employees in those small plans that are paid with company stock would be less protected as to how their stocks are performing.

Last Congress I voted against a similar bill, H.R. 4571, when it was marked up in our committee. I also spoke in opposition to this bill when it was included as title XI of H.R. 37.

This bill uses the veneer of job creation to provide special treatment for well-connected corporations, mergers and acquisition advisers, and financial institutions, while doing very little for and probably doing much damage to employees and working families.

I strongly support employees receiving equity. I think that is a good deal. If employees can receive stock options and, importantly, if they can know about the value of those stocks and know about the condition of these companies, that can be a huge advantage.

Employees will buy into the company, but they have to have the information about what the stock is worth. This bill allows them to be denied that information. They are buying a pig in a poke. They don't know what the stocks are worth. So it puts them at a tremendous disadvantage.

And, again, these companies are the ones that are most vulnerable to ups and downs in the economy going forward.

I agree the remarks of Professor Theresa Gabaldon from George Washington University during our April 29 Capital Markets and Government Sponsored Enterprises Subcommittee hearing. During her testimony, the professor expressed opposition to this bill for the very reasons I have stated.

The CHAIR. The time of the gentleman has expired.

Ms. MAXINE WATERS of California. I yield another 30 seconds to the gentleman.

Mr. LYNCH. She opposed this bill because employees deserve the same protections, she said, as investors.

This makes sense. This is easy. We should be able to do what we want to do here and stimulate the economy, yet, at the same time, allow these employees to have the information that they need to know what the value of the stocks they are being paid with are worth. It is as simple as that.

I thank the ranking member for her indulgence.

Mr. HENSARLING. Mr. Chair, I yield myself 10 seconds to remind my friends who have spoken that title I of this bill passed 45–15, with Democratic support; title II, 48–9, with Democratic support; title III, in the last Congress, passed the floor 420–0; title IV, 44–11, with Democratic support; title V, 41–16, with Democratic support. So perhaps they should discuss these attacks amongst themselves first.

I yield 6 minutes to the gentleman from Virginia (Mr. HURT), one of the prime sponsors and author of title IV and title V.

Mr. HURT of Virginia. Mr. Chairman, I thank the chairman of the Financial Services Committee for his leadership in moving this legislation to the floor.

I rise today in support of this bill, the Capital Markets Improvement Act.

As I travel across Virginia's Fifth District, the number one issue facing the families I represent is the desperate need for job creation.

Making sure that hardworking Virginians and Americans have adequate access to capital markets is imperative to job creation and to sustained economic growth for our great Nation.

This is why it is so important that the Financial Services Committee and the House of Representatives continue to push legislation that will make it easier for our businesses, for our farmers, and for families to be successful.

Indeed, every provision within this bill today we are considering has received bipartisan support, and each title of this bill is critical to enhancing access to capital and ensuring that the U.S. capital markets remain the most vibrant in the world.

Within this Capital Markets Improvement Act, I am pleased that two provisions that I have sponsored have been included, the Small Company Disclosure Simplification Act and the Streamlining Excessive and Costly Regulations Review Act.

The first provision is contained in title IV. The Small Company Disclosure Simplification Act addresses a 2009 mandate from the SEC which required the use of eXtensible Business Reporting Language, or XBRL, for public companies.

While the SEC's rule is well-intended, this requirement has become another example of a regulation where the costs often outweigh the potential benefits.

These companies spend thousands of dollars and more complying with the regulation, yet there is little evidence that investors actually use XBRL, leading one to question its real-world benefits.

The provision before us today is a measured step that would offer small companies relief from the burdens of XBRL. Title IV provides a voluntary—let me say that again—a voluntary exemption for emerging growth companies and smaller public companies from the SEC's requirements to file their financial statements via XBRL in addition to their regular filings with the SEC.

It is important to note that nothing in this bill precludes companies from utilizing XBRL for their filings with the SEC. The exemption is completely optional and allows smaller companies to assess whether the costs incurred for compliance are outweighed by any benefits using this technology.

During our committee's hearing on this issue, one company reported that it spent $50,000 on complying with XBRL. That is a real cost to a small company, especially when that cost does not yield a significant benefit.

I am not suggesting that every firm pays this much, but certainly we can agree that, when filing fees are this high, we should ensure that the requirements result in a benefit to investors and to those public companies being regulated.

It is also very important to note that, with this legislation, all public companies will continue to file quarterly and annual statements with the SEC.

Furthermore, this bill will not kill the implementation of XBRL or structured data at the SEC. It is merely providing a temporary and voluntarily exemption for smaller companies so that they may better utilize their capital.

It is about choice and ensuring that these companies can use their capital to create jobs instead of using it to comply with unnecessary red tape.

This bill has previously received strong bipartisan support in the Financial Services Committee and on the floor of this House when this measure was part of the Promoting Job Creation and Reducing Small Business Burdens Act.

Similarly, during the last Congress, this measure was also approved with a strong bipartisan vote in the House. I ask that my colleagues once again support this commonsense legislation today.

In addition to the disclosure simplification issues, we have also sponsored title V of this Capital Markets Improvement Act. This is a bipartisan bill that I crafted with my colleague, Ms. KYRSTEN SINEMA of Arizona.

The Streamlining Excessive and Costly Regulations Review Act is about accountable and representative government and making sure that the SEC is taking an ongoing retrospective look at its regulation.

This legislation would simply require the SEC to review its major rules and regulations on a regular basis to determine whether they are still effective or outdated or whether they need to be changed in some regard. In fact, other prudential regulators, such as the FDIC, the OCC, and the Federal Reserve, are already doing this.

During the mid-1990s, the Economic Growth and Regulatory Paperwork Reduction Act, or EGRPRA, required these entities to conduct a retrospective review of all of their regulations to determine if they were still effective and, subsequently, report their findings to Congress.

Because the House Banking Committee at the time did not have jurisdiction over the SEC, the SEC was left out of this process.

Title V would simply require the SEC to retrospectively review its regulations with the goal of ensuring that they are effective and up to date. It would enable the SEC to operate in the most effective manner possible. It would afford the SEC the autonomy and flexibility to make this mandate effective.

President Obama himself endorsed this idea in multiple 2011 executive orders, and the other prudential regulators are already operating under a similar review process. This legislation simply puts the SEC on the same playing field as the other regulators.

Moreover, this bill provides Congress with the insight it needs to hold the Commission accountable, and the legislation adheres to the requirements of the Administrative Procedure Act.

All said, the structure and the process of title V will provide industry, the SEC, and Congress, with the structure and time necessary to ensure that this retrospective review process is effective.

I ask my colleagues to join me in supporting this title so that we can continue to improve the SEC's regulatory regime.

In closing, let me again thank the committee chairman, Chairman HENSARLING, and Chairman GARRETT, who is our Capital Markets and Government Sponsored Enterprises Subcommittee chair, for making these two provisions a part of this act. I urge my colleagues to vote ''yes'' on this good bill.

Ms. MAXINE WATERS of California. Mr. Chairman, I yield 3 minutes to the gentlewoman from New York (Mrs. CAROLYN B. MALONEY), the ranking member of the Subcommittee on Capital Markets and Government Sponsored Enterprises of the Financial Services Committee.

Mrs. CAROLYN B. MALONEY of New York. Mr. Chairman, I thank the ranking member for yielding and for her leadership on this committee and on this legislation.

I rise today in opposition to H.R. 1675. It would curtail the existing regulatory structure protecting investors.

While this package includes bills that I have supported, including the ETF research bill, which simply allows more research on a fast-growing market, ultimately, I have to oppose this package because it would roll back the progress that we have made in many areas, including on XBRL.

I rise in opposition to the prior speaker from the great State of Virginia, really, one of my favorite Republicans to work with on the committee, but I oppose very much his bill that would roll back XBRL and would allow roughly 60 percent of all public companies to opt out of the requirement to use XBRL.

I believe that this would hurt the overall economy, the liquidity of the markets, and the information that investors are able to gain and gather.

I am a big supporter of XBRL, which allows companies to file their financial statements in a computer-readable format. XBRL makes it possible for investors and analysts to quickly download standardized financial statements for an entire industry directly to a spreadsheet and immediately start making cross-company comparisons in order to identify the best performers.

I would argue that this would increase the amount of investment in start-ups and small businesses. This would enable investors to more easily identify the companies that are diamonds in the rough, so to speak; and very often, these are small companies that have innovative business models but have trouble attracting the attention of analysts and institutional investors.

One reason is it is simply too time-consuming for analysts and investors to pick through every small company's 100-page financial filings.

A small company's filings may tell an incredible story about why that company is poised to be the next Apple or Google. But if the so-called search costs are high enough that analysts and investors never see them, then that company will never get the capital infusion it needs to grow and our economy will never realize the benefits that the company has to offer.

This is where XBRL comes in. It dramatically reduces the search costs by making it fast and cheap for investors to gather standardized financial statements for entire industries, including the small businesses that the investors wouldn't have bothered with before.

So if you want to improve small companies' access to capital, rolling back XBRL is the last thing you would want to do. I believe that we should be moving forward, not backward, on XBRL.

We are already far behind the rest of the developed world in using structured data. I rise in opposition to this bill.

The Acting CHAIR. The time of the gentlewoman has expired.

Ms. MAXINE WATERS of California. I yield the gentlewoman an additional 1 minute.

Mrs. CAROLYN B. MALONEY of New York. I think we should think very hard about an issue before we take away a tool that literally benefits both investors and small companies.

□ 1445

Unfortunately, that is what this bill would do. Instead of moving forward on XBRL and making it even more useful for analysts and investors, the bill would allow roughly 60 percent of all public companies to opt out of their requirements to use XBRL. This would effectively take our capital markets back to the 20th century.

Mr. Chairman, I urge my colleagues to oppose this bill which doesn't benefit investors and I would say the overall economy.

I urge a ''no'' vote from my colleagues.

Mr. HENSARLING. Mr. Chairman, I yield 3 minutes to the gentleman from Michigan (Mr. HUIZENGA), the chairman of the Monetary Policy and Trade Subcommittee of the Financial Services Committee and the author of title III of this act.

Mr. HUIZENGA of Michigan. Mr. Chairman, I rise today to alert the American people: we have a red herring alert. This is a legislative equivalent to an Amber Alert because we have folks who talk a good game behind closed doors, who come out here, though, in the light of day and do something very different, and they are missing. They are missing in action from solving the problem. This red herring alert is very disturbing. We instead are seeing today trumped-up attacks on commonsense reforms that need to happen that many people will behind closed doors agree need to happen.

In my particular case with section 3, we have a ''no-action'' letter put out by the SEC that those on the other side of the aisle say, ''We don't need to do anything. The SEC is taking care of it.'' The problem is that it took years for the SEC to even address the issue. Apparently what is good enough for a ''no-action'' letter should be good enough for the law. So they know full well that many of the things that we are trying to address in H.R. 1675 are coming from unintended consequences.

This important piece of legislation is a package of bipartisan ideas designed to help Main Street businesses promote job creation and economic growth. The Second District of Michigan, west Michigan, is full of these types of family-owned companies.

Mr. Chairman, small businesses, private companies, and entrepreneurs need access to capital, but burdensome, needless regulations out of Washington and the SEC have created barriers to that investment capital.

Main Street small businesses are the heart and soul of our Nation. In fact, they have created the majority of the Nation's new jobs over the last couple of decades. So what does that mean? It is not the big, major companies that are creating those job opportunities. It is our small, innovative companies that are. For these small businesses to survive and thrive in a healthy, growing economy, we must reduce barriers to capital and encourage small business growth and the small business entrepreneur without putting the taxpayer or the economy at risk.

H.R. 1675 does exactly that. This compilation of bipartisan regulatory relief provisions will ensure that Main Street businesses continue to have access to the capital that they need to grow the economy and create new jobs.

Mr. Chairman, I urge a ''yes'' vote on H.R. 1675. You need to ignore the red herrings that are getting thrown out there. The capital markets need to have these reforms. I look forward to working with my Senate colleagues to see H.R. 1675 make its way to President Obama's desk for his signature.

Ms. MAXINE WATERS of California. Mr. Chairman, I yield 3 minutes to the

gentlewoman from Illinois (Ms. SCHAKOWSKY), a true progressive champion.

Ms. SCHAKOWSKY. Mr. Chairman, I rise in opposition to H.R. 1675, the Encouraging Employee Ownership Act.

As a young housewife in suburban Chicago, I joined a handful of women in a successful campaign to get freshness dates on grocery products. At the time, expiration dates were coded. The stores knew, but consumers were in the dark about whether the milk they were buying had been on the shelf too long.

Getting that information was really important. It gave us the facts and the power to make the right food choices for our families. Getting information about our stocks—whether those stocks are in the form of compensation or investments—is equally important. Again, information is power—the key to being able to protect the financial well-being of our families.

Simply, workers deserve to know the value of the stocks they are receiving instead of wages. We are living in a time of serious wage stagnation. According to the National Employment Law Project, real hourly wages were 4 percent lower on average in 2014 than in 2009. So it is important for workers who are offered stock compensation to have accurate data about the value of those stocks.

Similarly, we are experiencing a real retirement security crisis. Median savings for all working households is $2,500 for retirement. For those near retirement, it is $14,500—not a heck of a lot of money saved for retirement. So we need to encourage investments. But if we want Americans to invest, we need to give them information. They need to be able to judge the risks and make wise decisions.

Yet, instead of giving American workers or investors more information, H.R. 1675 would give them less. This bill would double the threshold that triggers disclosure of information to workers. It would reduce the requirements for broker-dealers to be accountable for certain information that they provide. It would make it harder to find information on SEC filings, and it would give the SEC unilateral power to overturn congressionally enacted laws to protect investors.

Those are all really bad ideas, and I think we should vote ''no'' on H.R. 1675.

Mr. HENSARLING. Mr. Chairman, may I inquire how much time is remaining on both sides?

The CHAIR. The gentleman from Texas has 9 minutes remaining. The gentlewoman from California has 9½ minutes remaining.

Mr. HENSARLING. Mr. Chairman, I yield 3 minutes to the gentleman from Arkansas (Mr. HILL). He is the author of title II of the act.

Mr. HILL. Mr. Chairman, today I rise in support of H.R. 1675 and particularly want to speak about title II, which is called the Fair Access to Investment Research Act, which I sponsored along with my friend and colleague, Mr. CARNEY from Delaware.

Since starting my most recent investment firm that I had back in the 1990s before I came to Congress a year ago, I have seen the investment category exchange-traded funds, or ETFs, grow from about 100 funds with $100 billion in assets to over 1,400 funds with almost $2 trillion in assets—a significant increase over that time.

Despite their growing popularity and use by retail investors and small institutional investors, most broker-dealers in this country do not publish research on ETFs. Primarily, the lack of that publication is due to anomalies in the securities laws and regulations, and that is at the heart of what we are talking about here. It is an important investment category. It deserves research, and it deserves more information, not less.

Title II's mission is simple. It directs the SEC to provide a safe harbor for research reports that cover ETFs so that those reports are not considered offers under section 5 of the Securities Act of 1933. Therefore, ETF research is just treated like all other stock corporate research.

This is a commonsense proposal, and it mirrors other research safe harbors implemented by the SEC which clarify the law and allow broker-dealers to publish ETF research allowing investors more information about this rapidly growing and important market.

Further, this bill holds the SEC accountable—a large challenge before the Congress—to follow our direction. This bill requires the SEC to finalize the rules within 120 days, and if the deadline is not met, an interim safe harbor will take effect until the SEC's rules are finalized.

I might add to my friends at the Commission, this is not a topic unfamiliar to you as it has been raised at the Commission many times, including by the Commission staff over the past 17 years—and yet no action has happened. So we are no longer out ahead of the curve on this topic, we are behind it, as there are some 6 million U.S. households currently using ETFs in their investment portfolios, and they need access to this research.

Having worked in the banking and investment industry for three decades, I appreciate Chairman HENSARLING and Congress' efforts to promote capital formation, reduce unnecessary barriers, provide sunshine, provide information to our investors, and, by definition, grow jobs and our economy.

I want to finally thank Mr. CARNEY of Delaware for working with me on this project and for being so patient along its way in the last weeks.

Ms. MAXINE WATERS of California. Mr. Chairman, I yield myself such time as I may consume.

Mr. Chairman and Members, when my colleague from Massachusetts came to the floor and started to talk about this bill, he said this is a bad bill, and included in this bill a total of five bad bills.

As we go through each of these bills, we cannot help but wonder why any public policymaker would want to endanger small businesses and investors in the way that this bill does. One must ask one's self why, why would any elected official want to eliminate financial disclosures for employees regarding their stock compensation? Why would you want to do that? Why don't you want employees to know what they are being given? Why don't you want employees to understand that this stock that they are being given may or may not be worth the paper that it is written on? Why would we want to keep this information away from them?

As it was stated by the gentlewoman from Illinois, she said basically that many of these companies are not increasing wages. As a matter of fact, we have stagnation in wages in this country and in all of the major companies, for example. So what is happening is these employees believe that when they are being given stock instead of a raise, then maybe they have something valuable.

They need to know what they are getting. They need to know exactly what their company is holding out to them is valuable. So I raise the question, why would any public policymaker want to keep this information from employees?

Further, the opposite side of the aisle always talks about they are for dealing with crime, that they are about criminal justice. But here they are allowing bad actors to engage in small business mergers and acquisitions. I am talking about people who have been convicted. I am talking about people whom you have administrative orders against. I am talking about swindlers. I am talking about bad people that will be allowed, by this bill, to engage in small business mergers and acquisitions. I don't understand it, and I don't know why.

Increasingly, the people of this country are looking at the Members of Congress, and they are saying that they are not with us, they are against us, and that we don't have anybody that is really protecting our interests. More and more, it is being discussed. They are finally getting on to it that somehow too many of the Members of Congress are siding with the big guys, siding with the large corporations, and with the big banks, and not looking out for the interests of the people. They want to know why.

Again, title III of this bill would significantly expand an exemption for registration granted by the SEC to certain mergers and acquisition brokers who deal with small businesses without providing significant protections for those businesses or investors.

Last Congress when we considered this exemption, it was meant to prompt action by the SEC to finalize its no-action letter to exempt these merger and acquisition brokers from registration. Two weeks after that bill passed the House floor, the SEC granted relief. Yet you wouldn't know it if

you read this bill. This bill ignores that relief, and, worse, it inexplicably omits eight—omits eight—of the important investment protections that it includes.

As a result, it would allow, again, these bad actors, these cheaters, these people who commit fraud, and these scammers to use this exemption providing them with an opportunity just to swindle our small businesses. Yet they claim they support small business.

It is fashionable to say, ''I am for small business.'' Everybody is for small business. But when you take a look at what we do, you can determine who is for the small business and who really are for the big businesses, for the swindlers, and for the cheaters who rob small businesses of the opportunity to be successful.

□ 1500

It would also allow M&A brokers to merge public shell companies that have no assets of their own.

Even some of my Republican colleagues who will be offering an amendment to add in these two protections are unable to justify the omission, but my friends on the opposite side of the aisle completely ignore the other six investor protections in the SEC's no action relief.

I am not going to go any further with that. That is quite obvious.

But let me say this. Not only do we have these bad bills with bad public policy, we have a trick in the bill and the bill attempts to tie the hands of the SEC by saying they need to go back—oh, back to 1934 and review everything that they have done, all of these regulations.

Do you know why they are doing that? It is the same reason that they won't support them getting additional funding to do their job. They just want to tie their hands so that they won't be able to do the job that they are supposed to do.

When we call these bills bad, we are simply not sharing with you some rhetoric about some meaningless harm that may come because of these bills. We are telling you these are harmful bills, these are truly bad bills.

I reserve the balance of my time.

Mr. HENSARLING. Mr. Chairman, I yield 2½ minutes to the gentleman from New Jersey (Mr. GARRETT), the chairman of the Capital Markets and Government Sponsored Enterprises Subcommittee.

Mr. GARRETT. Mr. Chairman, I thank the chairman.

I want to commend Mr. HULTGREN, Mr. HILL, and all of the sponsors who have worked so hard on the underlying legislation and for the dedication to doing what? Improving the capital markets and creating jobs in this country.

Mr. Chairman, the last decade has really not been kind to middle class Americans and to lower income Americans as well, where people are struggling to make it to the 15th of the month or the end of the month.

We have not experienced in this country a 3 percent GDP since, I think, back in 2005. Middle class income wages are basically stagnating, and the number of people in poverty in this country during this administration has reached an astonishing 50 million people.

Did you hear that? Fifty million people during the Obama administration find themselves still in poverty right now.

Yet, the Obama administration continues—if you listen to him and our committee meetings from the other side of the aisle, they tout the supposed strength of the recovery, despite the fact that, under President Obama, only the rich in this country have gotten richer while the poor and the middle class continue to struggle.

Today our committee brings to the floor a package of bills that will do what, they will help small businesses. They will help people get new jobs. They will help the creation of new hiring. They will help those hardworking Americans who want to get a better job and improve themselves to create wealth in this country and not just rely, as in the past, on taxpayer economic sugar highs provided by the Federal Reserve or wasteful stimulus programs.

What do we have right now? We have five bills. We have Mr. HULTGREN's legislation that will help hardworking Americans by giving Americans more chance to do what? Invest their money so they can work.

We have Mr. HURT's legislation initiatives to hold the SEC accountable, yes, hold American bureaucrats accountable and reduce Washington's unnecessary burdens on small public companies.

We have Mr. HUIZENGA's bill to make it easier for small businesses to simply receive advice from professionals.

Finally, we have Mr. HILL's bill over here that will allow investors greater access to research on investment funds before they invest their money.

Mr. Chairman, what we have here is that not a single one of these provisions will grow the bureaucracy, not a single one of these provisions will throw more taxpayer dollars at the situation in the hopes that it will solve some perceived problem out there, and not a single one of these provisions include any new Federal mandates on the job creators of this country: small businesses.

Each and every one of these is a positive solution to our economic problems. As an added bonus, they all have the benefit of being bipartisan.

Again, I thank you and all the sponsors for their support.

I urge my colleagues to support H.R. 1675.

Ms. MAXINE WATERS of California. Mr. Chairman, I continue to reserve the balance of my time.

Mr. HENSARLING. Mr. Chairman, how much time is remaining on each side?

The Acting CHAIR (Mr. BYRNE). The gentleman from Texas has 3½ minutes remaining. The gentlewoman from California has 3 minutes remaining.

Mr. HENSARLING. Mr. Chairman, I yield 1½ minutes to the gentlewoman from Arizona (Ms. SINEMA), one of the Democratic cosponsors and cosponsor of title V of the bill.

Ms. SINEMA. Mr. Chairman, I thank Chairman HENSARLING for including legislation to review outdated and unnecessary regulation in this important bill.

And thank you to Congressman HURT for working across the aisle with me to advance this commonsense measure.

Business owners in Arizona regularly tell me that our inefficient and often confusing regulatory environment hurts their ability to grow and hire. This commonsense legislation requires the SEC to improve and repeal outdated regulations, holding them accountable, and providing certainty for businesses and consumers in Arizona.

This bill requires the SEC to within 5 years of enactment and then once every 10 years thereafter review all significant SEC rules and determine by Commission vote whether they are outmoded, ineffective, insufficient, excessively burdensome or are no longer in the public interest or consistent with the SEC's mission to protect investors, facilitate capital formation, and maintain fair, orderly, and efficient markets.

The Commission would then be required to provide notice and solicit public comment on whether such rules should be amended or repealed and then amend or repeal any such rule by vote in accordance with the Administrative Procedures Act.

Finally, the Commission would report to Congress within 45 days after any final vote, including any suggestions for legislative changes.

The bill would require the SEC to only review major or significant rules. It would not allow mandatory rulemakings to be repealed unilaterally by the SEC.

Should the SEC determine that legislation is necessary to amend or repeal a regulation, the bill requires the Commission to include in their report to Congress recommendations for such legislation.

Finally, the bill would prevent additional litigation by clarifying that the initial SEC vote would not be subject to judicial review.

I believe that reviewing significant rules at the SEC, as directed by the administration's executive order, is a worthwhile use of SEC resources.

I hope Members join me in supporting this bipartisan legislation.

Thank you, Chairman HENSARLING and Congressman HURT, for advancing this important legislation.

Ms. MAXINE WATERS of California. Mr. Chairman and Members, I yield myself such time as I may consume.

Since the gentleman from New Jersey talked about the President and

blamed him for everything he could think of, the administration is sending you a message. The administration strongly opposes H.R. 1675.

''Among other flaws, this bill includes several provisions that pose risks to investors, are overly broad, allow financial institutions to avoid appropriate oversight, and are duplicative of existing administrative authorities.''

Thank you from President Obama.

H.R. 1675 is yet another Republican attempt to deregulate Wall Street during the 114th Congress. We have seen time and time again that Republicans will stop at nothing to launch attacks at the expense of American consumers and taxpayers in order to help the largest Wall Street banks. This bill is another example of these tactics.

So far during this Congress, Republicans on the Financial Services Committee have taken a number of measures to undermine consumers, undermine investors, and undermine financial stability. Some of the worst examples of this include:

Change in the structure of the Consumer Financial Protection Bureau. Ladies and gentlemen, the Republicans hate the Consumer Financial Protection Bureau, and they have tried to bog the agency down in partisan gridlock and disfunction. Republicans never wanted to create the CFPB. Now that it is there and it is successful, they want to undercut it.

Deregulating large banks by removing the enhanced prudential standards established by the Dodd-Frank Act. This would allow large regional megabanks to escape basic rules related to capital, liquidity, and leverage established after the crisis.

Allowing discriminatory markups on automobile loans for racial and ethnic minority borrowers. Republicans want auto finance companies to be able to gouge minority consumers with interest rate markups even when those consumers are equally creditworthy compared to their White counterparts.

Removing consumer protections on mortgages for the largest banks. The Republicans would remove vital consumer protections from the riskiest mortgage products sold by the largest banks in this country.

The bill also would allow mortgage brokers to get hefty bonuses for steering borrowers into expensive and complex mortgage products.

Eliminating Dodd-Frank protections related to manufactured housing loans, thereby allowing consumers to be charged sky-high interest rates without providing them guaranteed housing counseling or legal recourse.

Undermining the Financial Stability Oversight Council. Our consolidated regulator in charge of monitoring systemic risk among the financial system by doubling the time it would take for them to designate risky nonbank companies for extra supervision.

We should not be surprised about this bill today. It is consistent with everything that they have been doing in order to protect Wall Street, the biggest banks that are too big to fail. This again is consistent with everything they have been doing.

I yield back the balance of my time.

Mr. HENSARLING. Mr. Chairman, I yield myself the balance of my time.

Mr. Chairman, I am very proud of the fact, as the chairman of the Financial Services Committee, that we move a lot of bipartisan legislation. I take great pride in that. It is just so rare that the Democratic ranking member chooses to be a part of any of it.

Here we have major titles of this bill. Title I supported 45–15 with Democratic support; title II passed 48–9 with Democratic support; title III, 36–24; title IV, 44–11; title V, 41–16, yet another bipartisan exercise where men and women of goodwill come together to try to work on behalf of the working families of America. Yet again, the ranking member and those who are close to her choose not to be a part of this.

I guess I would ask, Mr. Chairman, how many more people have to suffer in this economy? Working families are struggling. Their paychecks are less since the President came to office, since we have had 8 years of Obamanomics. They have 10 to 15 percent less in their bank accounts. We have tried it their way, Mr. Chairman, and it has failed.

Why does the ranking member and other Democrats continue this war on small business? We are losing our small businesses. Entrepreneurship in America is at a generational low.

We are trying to give them a little bit of a bipartisan lifeline to breath a little life into these small businesses to allow them to create more jobs and better career paths so that so many people don't struggle to pay their mortgages and to pay their healthcare premiums.

These are modest changes. I am glad that a number of Democrats have decided to cross the ranking member and want to do something that is commonsense that will help small businesses and help the struggling working people in America.

I urge all to vote for the act. I yield back the balance of my time.

The Acting CHAIR. All time for general debate has expired.

Pursuant to the rule, the bill shall be considered for amendment under the 5-minute rule.

It shall be in order to consider as an original bill for the purpose of amendment under the 5-minute rule an amendment in the nature of a substitute consisting of the text of Rules Committee Print 114–43. That amendment in the nature of a substitute shall be considered as read.

The text of the amendment in the nature of a substitute is as follows:

H.R. 1675

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE; TABLE OF CONTENTS.

(a) SHORT TITLE.—This Act may be cited as the ''Capital Markets Improvement Act of 2016''.

(b) TABLE OF CONTENTS.—The table of contents for this Act is as follows:

TITLE I—ENCOURAGING EMPLOYEE OWNERSHIP

SEC. 101. INCREASED THRESHOLD FOR DISCLOSURES RELATING TO COMPENSATORY BENEFIT PLANS.

Not later than 60 days after the date of the enactment of this Act, the Securities and Exchange Commission shall revise section 230.701(e) of title 17, Code of Federal Regulations, so as to increase from $5,000,000 to $10,000,000 the aggregate sales price or amount of securities sold during any consecutive 12-month period in excess of which the issuer is required under such section to deliver an additional disclosure to investors. The Commission shall index for inflation such aggregate sales price or amount every 5 years to reflect the change in the Consumer Price Index for All Urban Consumers published by the Bureau of Labor Statistics, rounding to the nearest $1,000,000.

TITLE II—FAIR ACCESS TO INVESTMENT RESEARCH

SEC. 201. SAFE HARBOR FOR INVESTMENT FUND RESEARCH.

(a) EXPANSION OF SAFE HARBOR.—Not later than the end of the 45-day period beginning on the date of enactment of this Act, the Securities and Exchange Commission shall propose, and not later than the end of the 120-day period beginning on such date, the Commission shall adopt, upon such terms, conditions, or requirements as the Commission may determine necessary or appropriate in the public interest, for the protection of investors, and for the promotion of capital formation, revisions to section 230.139 of title 17, Code of Federal Regulations, to provide that a covered investment fund research report—

(1) shall be deemed, for purposes of sections 2(a)(10) and 5(c) of the Securities Act of 1933, not to constitute an offer for sale or an offer to sell a security that is the subject of an offering pursuant to a registration statement that the issuer proposes to file, or has filed, or that is effective, even if the broker or dealer is participating or will participate in the registered offering of the covered investment fund's securities; and

(2) shall be deemed to satisfy the conditions of subsection (a)(1) or (a)(2) of section 230.139 of title 17, Code of Federal Regulations, or any successor provisions, for purposes of the Commission's rules and regulations under the Federal securities laws and the rules of any self-regulatory organization.

(b) IMPLEMENTATION OF SAFE HARBOR.—In implementing the safe harbor pursuant to subsection (a), the Commission shall—

(1) not, in the case of a covered investment fund with a class of securities in substantially continuous distribution, condition the safe harbor on whether the broker's or dealer's publication or distribution of a covered investment fund research report constitutes such broker's or dealer's initiation or reinitiation of research coverage on such covered investment fund or its securities;

(2) not—

(A) require the covered investment fund to have been registered as an investment company under the Investment Company Act of 1940 or subject to the reporting requirements of section 13 or 15(d) of the Securities Exchange Act of 1934 for any period exceeding twelve months; or

(B) impose a minimum float provision exceeding that referenced in subsection (a)(1)(i)(A)(1)(i) of section 230.139 of title 17, Code of Federal Regulations;

(3) provide that a self-regulatory organization may not maintain or enforce any rule that would—

(A) condition the ability of a member to publish or distribute a covered investment fund research report on whether the member is also participating in a registered offering or other distribution of any securities of such covered investment fund;

(B) condition the ability of a member to participate in a registered offering or other distribution of securities of a covered investment fund on whether the member has published or distributed a covered investment fund research report about such covered investment fund or its securities; or

(C) require the filing of a covered investment fund research report with such self-regulatory organization; and

(4) provide that a covered investment fund research report shall not be subject to sections 24(b) or 34(b) of the Investment Company Act of 1940 or the rules and regulations thereunder.

(c) RULES OF CONSTRUCTION.—Nothing in this section shall be construed as in any way limiting—

(1) the applicability of the antifraud provisions of the Federal securities laws; or

(2) the authority of any self-regulatory organization to examine or supervise a member's practices in connection with such member's publication or distribution of a covered investment fund research report for compliance with otherwise applicable provisions of the Federal securities laws or self-regulatory organization rules.

(d) INTERIM EFFECTIVENESS OF SAFE HARBOR.—From and after the 120-day period beginning on the date of enactment of this Act, if the Commission has not met its obligations pursuant to subsection (a) to adopt revisions to section 230.139 of title 17, Code of Federal Regulations, and until such time as the Commission has done so, a covered investment fund research report published or distributed by a broker or dealer after such date shall be deemed to meet the requirements of section 230.139 of title 17, Code of Federal Regulations, and to satisfy the conditions of subsection (a)(1) or (a)(2) thereof for purposes of the Commission's rules and regulations under the Federal securities laws and the rules of any self-regulatory organization, as if revised and implemented in accordance with subsections (a) and (b).

(e) DEFINITIONS.—For purposes of this section:

(1) COVERED INVESTMENT FUND RESEARCH REPORT.—The term ''covered investment fund research report'' means a research report published or distributed by a broker or dealer about a covered investment fund or any of its securities.

(2) COVERED INVESTMENT FUND.—The term ''covered investment fund'' means—

(A) an investment company registered under, or that has filed an election to be treated as a business development company under, the Investment Company Act of 1940 and that has filed a registration statement under the Securities Act of 1933 for the public offering of a class of its securities, which registration statement has been declared effective by the Commission; and

(B) a trust or other person—

(i) that has a class of securities listed for trading on a national securities exchange;

(ii) the assets of which consist primarily of commodities, currencies, or derivative instruments that reference commodities or currencies, or interests in the foregoing; and

(iii) that allows its securities to be purchased or redeemed, subject to conditions or limitations, for a ratable share of its assets.

(3) RESEARCH REPORT.—The term ''research report'' has the meaning given to that term under section 2(a)(3) of the Securities Act of 1933, except that such term shall not include an oral communication.

(4) SELF-REGULATORY ORGANIZATION.—The term ''self-regulatory organization'' has the meaning given to that term under section 3(a)(26) of the Securities Exchange Act of 1934.

TITLE III—SMALL BUSINESS MERGERS, ACQUISITIONS, SALES, AND BROKERAGE SIMPLIFICATION

SEC. 301. REGISTRATION EXEMPTION FOR MERGER AND ACQUISITION BROKERS.

Section 15(b) of the Securities Exchange Act of 1934 (15 U.S.C. 78o(b)) is amended by adding at the end the following:

''(13) REGISTRATION EXEMPTION FOR MERGER AND ACQUISITION BROKERS.—

''(A) IN GENERAL.—Except as provided in subparagraph (B), an M&A broker shall be exempt from registration under this section.

''(B) EXCLUDED ACTIVITIES.—An M&A broker is not exempt from registration under this paragraph if such broker does any of the following:

''(i) Directly or indirectly, in connection with the transfer of ownership of an eligible privately held company, receives, holds, transmits, or has custody of the funds or securities to be exchanged by the parties to the transaction.

''(ii) Engages on behalf of an issuer in a public offering of any class of securities that is registered, or is required to be registered, with the Commission under section 12 or with respect to which the issuer files, or is required to file, periodic information, documents, and reports under subsection (d).

''(C) RULE OF CONSTRUCTION.—Nothing in this paragraph shall be construed to limit any other authority of the Commission to exempt any person, or any class of persons, from any provision of this title, or from any provision of any rule or regulation thereunder.

''(D) DEFINITIONS.—In this paragraph:

''(i) CONTROL.—The term 'control' means the power, directly or indirectly, to direct the management or policies of a company, whether through ownership of securities, by contract, or otherwise. There is a presumption of control for any person who—

''(I) is a director, general partner, member or manager of a limited liability company, or officer exercising executive responsibility (or has similar status or functions);

''(II) has the right to vote 20 percent or more of a class of voting securities or the power to sell or direct the sale of 20 percent or more of a class of voting securities; or

''(III) in the case of a partnership or limited liability company, has the right to receive upon dissolution, or has contributed, 20 percent or more of the capital.

''(ii) ELIGIBLE PRIVATELY HELD COMPANY.—The term 'eligible privately held company' means a company that meets both of the following conditions:

''(I) The company does not have any class of securities registered, or required to be registered, with the Commission under section 12 or with respect to which the company files, or is required to file, periodic information, documents, and reports under subsection (d).

''(II) In the fiscal year ending immediately before the fiscal year in which the services of the M&A broker are initially engaged with respect to the securities transaction, the company meets either or both of the following conditions (determined in accordance with the historical financial accounting records of the company):

''(aa) The earnings of the company before interest, taxes, depreciation, and amortization are less than $25,000,000.

''(bb) The gross revenues of the company are less than $250,000,000.

''(iii) M&A BROKER.—The term 'M&A broker' means a broker, and any person associated with a broker, engaged in the business of effecting securities transactions solely in connection with the transfer of ownership of an eligible privately held company, regardless of whether the broker acts on behalf of a seller or buyer, through the purchase, sale, exchange, issuance, repurchase, or redemption of, or a business combination involving, securities or assets of the eligible privately held company, if the broker reasonably believes that—

''(I) upon consummation of the transaction, any person acquiring securities or assets of the eligible privately held company, acting alone or in concert, will control and, directly or indirectly, will be active in the management of the eligible privately held company or the business conducted with the assets of the eligible privately held company; and

''(II) if any person is offered securities in exchange for securities or assets of the eligible privately held company, such person will, prior to becoming legally bound to consummate the transaction, receive or have reasonable access to the most recent year-end balance sheet, income statement, statement of changes in financial position, and statement of owner's equity of the issuer of the securities offered in exchange, and, if the financial statements of the issuer are audited, the related report of the independent auditor, a balance sheet dated not more than 120 days before the date of the offer, and information pertaining to the management, business, results of operations for the period covered by the foregoing financial statements, and material loss contingencies of the issuer.

''(E) INFLATION ADJUSTMENT.—

''(i) IN GENERAL.—On the date that is 5 years after the date of the enactment of the Small Business Mergers, Acquisitions, Sales, and Brokerage Simplification Act of 2015, and every 5 years thereafter, each dollar amount in subparagraph (D)(ii)(II) shall be adjusted by—

''(I) dividing the annual value of the Employment Cost Index For Wages and Salaries, Private Industry Workers (or any successor index), as published by the Bureau of Labor Statistics, for the calendar year preceding the calendar year in which the adjustment is being made by the annual value of such index (or successor) for the calendar year ending December 31, 2012; and

''(II) multiplying such dollar amount by the quotient obtained under subclause (I).

''(ii) ROUNDING.—Each dollar amount determined under clause (i) shall be rounded to the nearest multiple of $100,000.''.

SEC. 302. EFFECTIVE DATE.

This title and any amendment made by this title shall take effect on the date that is 90 days after the date of the enactment of this Act.

TITLE IV—SMALL COMPANY DISCLOSURE SIMPLIFICATION

SEC. 401. EXEMPTION FROM XBRL REQUIREMENTS FOR EMERGING GROWTH COMPANIES AND OTHER SMALLER COMPANIES.

(a) EXEMPTION FOR EMERGING GROWTH COMPANIES.—Emerging growth companies are exempted from the requirements to use Extensible Business Reporting Language (XBRL) for financial statements and other periodic reporting required to be filed with the Commission under the securities laws. Such companies may elect to use XBRL for such reporting.

(b) EXEMPTION FOR OTHER SMALLER COMPANIES.—Issuers with total annual gross revenues of less than $250,000,000 are exempt from the requirements to use XBRL for financial statements and other periodic reporting required to be filed with the Commission under the securities laws. Such issuers may elect to use XBRL for such reporting. An exemption under this subsection shall continue in effect until—

(1) the date that is five years after the date of enactment of this Act; or

(2) the date that is two years after a determination by the Commission, by order after conducting the analysis required by section 402, that the benefits of such requirements to such issuers outweigh the costs, but no earlier than three years after enactment of this Act.

(c) MODIFICATIONS TO REGULATIONS.—Not later than 60 days after the date of enactment of this Act, the Commission shall revise its regulations under parts 229, 230, 232, 239, 240, and 249 of title 17, Code of Federal Regulations, to reflect the exemptions set forth in subsections (a) and (b).

SEC. 402. ANALYSIS BY THE SEC.

The Commission shall conduct an analysis of the costs and benefits to issuers described in section 401(b) of the requirements to use XBRL for financial statements and other periodic reporting required to be filed with the Commission under the securities laws. Such analysis shall include an assessment of—

(1) how such costs and benefits may differ from the costs and benefits identified by the Commission in the order relating to interactive data to improve financial reporting (dated January 30, 2009; 74 Fed. Reg. 6776) because of the size of such issuers;

(2) the effects on efficiency, competition, capital formation, and financing and on analyst coverage of such issuers (including any such effects resulting from use of XBRL by investors);

(3) the costs to such issuers of—

(A) submitting data to the Commission in XBRL;

(B) posting data on the website of the issuer in XBRL;

(C) software necessary to prepare, submit, or post data in XBRL; and

(D) any additional consulting services or filing agent services;

(4) the benefits to the Commission in terms of improved ability to monitor securities markets, assess the potential outcomes of regulatory alternatives, and enhance investor participation in corporate governance and promote capital formation; and

(5) the effectiveness of standards in the United States for interactive filing data relative to the standards of international counterparts.

SEC. 403. REPORT TO CONGRESS.

Not later than one year after the date of enactment of this Act, the Commission shall provide the Committee on Financial Services of the House of Representatives and the Committee on Banking, Housing, and Urban Affairs of the Senate a report regarding—

(1) the progress in implementing XBRL reporting within the Commission;

(2) the use of XBRL data by Commission officials;

(3) the use of XBRL data by investors;

(4) the results of the analysis required by section 402; and

(5) any additional information the Commission considers relevant for increasing transparency, decreasing costs, and increasing efficiency of regulatory filings with the Commission.

SEC. 404. DEFINITIONS.

As used in this title, the terms ''Commission'', ''emerging growth company'', ''issuer'', and ''securities laws'' have the meanings given such terms in section 3 of the Securities Exchange Act of 1934 (15 U.S.C. 78c).

TITLE V—STREAMLINING EXCESSIVE AND COSTLY REGULATIONS REVIEW

SEC. 501. REGULATORY REVIEW.

(a) REVIEW AND ACTION.—Not later than 5 years after the date of enactment of this Act, and at least once within each 10-year period thereafter, the Securities and Exchange Commission shall—

(1) review each significant regulation issued by the Commission;

(2) determine by Commission vote whether each such regulation—

(A) is outmoded, ineffective, insufficient, or excessively burdensome; or

(B) is no longer necessary in the public interest or consistent with the Commission's mandate to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation;

(3) provide notice and solicit public comment as to whether a regulation described in subparagraph (A) or (B) of paragraph (2) (as determined by Commission vote pursuant to such paragraph) should be amended to improve or modernize such regulation so that such regulation is in the public interest, or whether such regulation should be repealed; and

(4) amend or repeal any regulation described in subparagraph (A) or (B) of paragraph (2), as determined by Commission vote pursuant to such paragraph.

(b) DEFINITION.—As used in this section and for purposes of the review required by subsection (a) the term ''significant regulation'' has the meaning given the term ''major rule'' in section 804(2) of title 5, United States Code.

(c) REPORT TO CONGRESS.—Not later than 45 days after any final Commission vote described in subsection (a)(2), the Commission shall transmit a report to the Committee on Financial Services of the House of Representatives and the Committee on Banking, Housing, and Urban Affairs of the Senate describing the Commission's review under subsection (a), its vote or votes, and the actions taken pursuant to paragraph (3) of such subsection. If the Commission determines that legislation is necessary to amend or repeal any regulation described in subparagraph (A) or (B) of subsection (a)(2), the Commission shall include in the report recommendations for such legislation.

(d) NOT SUBJECT TO JUDICIAL REVIEW.—Any vote by the Commission made pursuant to subsection (a)(2) shall be final and not subject to judicial review.

The Acting CHAIR. No amendment to that amendment in the nature of a substitute shall be in order except those printed in part A of House Report 114–414. Each such amendment may be offered only in the order printed in the report, by a Member designated in the report, shall be considered read, shall be debatable for the time specified in the report, equally divided and controlled by the proponent and an opponent, shall not be subject to amendment, and shall not be subject to a demand for division of the question.

AMENDMENT NO. 1 OFFERED BY MR. DESAULNIER

The Acting CHAIR. It is now in order to consider amendment No. 1 printed in part A of House Report 114–414.

Mr. DESAULNIER. Mr. Chairman, I have an amendment at the desk.

The Acting CHAIR. The Clerk will designate the amendment.

The text of the amendment is as follows:

Page 2, after line 17, insert the following:

SEC. 102. STUDY AND REPORT.

Not later than 1 year after the date of the enactment of this Act, the Securities and Exchange Commission shall complete a study and submit to Congress a report on the prevalence of employee ownership plans within companies that have a flexible or social benefit component in the articles of incorporation or similar governing documents of such companies, as permitted under applicable State law.

The Acting CHAIR. Pursuant to House Resolution 595, the gentleman from California (Mr. DESAULNIER) and a Member opposed each will control 5 minutes.

The Chair recognizes the gentleman from California.

□ 1515

Mr. DESAULNIER. Mr. Chairman, this is a straightforward study amendment that intends to build on the potential links between employee-owned corporations and social benefit corporations. This amendment requires the SEC to study overlaps between employee-owned corporations and alternative corporate forms authorized under various State laws.

Alternative corporate forms allow corporations, with the consent of their shareholders, to pursue social and environmental goals as a for-profit business enterprise. With legal protections that allow companies to consider the interests of all stakeholders, benefit corporations can help solve social and environmental challenges through their businesses. Benefit corporation status and other corporate forms allow companies to differentiate themselves and appeal to all consumers.

Alternative corporate forms provide legal protections that benefit innovators, entrepreneurs, investors, and consumers. These legal protections have helped create opportunities for innovation in States like California, which currently attracts almost half of all venture capital investment in the United States.

Some of these alternative corporate forms include flexible purpose corporations, benefit corporations, and low-profit limited liability companies. Benefit corporations, the most common type of alternative corporate form, are authorized in 30 States, including in the District of Columbia, and are currently being considered in five more States. L3Cs are authorized in eight States.

My amendment simply seeks to improve the availability of data so Congress can explore connections between employee-owned corporations and these increasingly popular alternative corporate forms.

Specifically again, this amendment requires the SEC to study and report to Congress the prevalence of employee-owned ownership plans within corporations that also include a flexible or a social benefit component in their articles of incorporation as allowed under relevant State laws.

Mr. Chairman, I urge my colleagues to support this commonsense amendment to improve our understanding of employee-owned corporations.

I reserve the balance of my time.

Mr. HENSARLING. Mr. Chairman, I rise in opposition to the gentleman's amendment.

The Acting CHAIR. The gentleman from Texas is recognized for 5 minutes.

Mr. HENSARLING. Mr. Chairman, I appreciate the gentleman's amendment, but I find it somewhat ironic when I continue to hear pleas from the other side of the aisle on how terribly burdened the SEC is and what great need they have that they can't make due with the resources that they have, and then here is a study which would be yet another burden on the SEC. First, Mr. Chairman, I find that somewhat ironic.

I don't find that the gentleman's amendment really has anything to do with encouraging employee ownership at privately held companies. I guess what really disturbs me, Mr. Chairman, is that this goal or this agenda of many is to take disclosure from those items that will enhance shareholder value and to, instead, take this into a debate about social values.

We are a very diverse country, and this is a good thing. There may be some investors who are interested in companies that support a pro-life position, and there may be others who are interested in a company that supports a pro-abortion position; but that has very little to do with the investment return, which, for most American families, is what they care about when they wonder if they are going to be able to pay for their home mortgages, to pay their utility bills, or to send their kids to college.

There are some people in America who support the Second Amendment, and there are some people who don't. Again, there is a wide diversity of social issues, and for those who wish to invest along those lines, in a relatively free society, they ought to be able to do that. If they can't get the information they need from a corporation, they have a multitude of investment opportunities. If they don't feel they are getting the type of social value information they need, they have a variety of opportunities.

I feel that the gentleman from California's amendment leads us down a road that, I think, ultimately, is harmful to working Americans who are trying to invest their meager savings in order to make ends meet. I urge that we reject the amendment.

Mr. Chairman, I reserve the balance of my time.

Mr. DESAULNIER. Mr. Chairman, while I respect the gentleman's understanding and his years of work in this field, I think my experience as a new Member who is coming from a State legislature that involved the business community in the development of some of these alternative forms, it is merely providing more information for shareholders and investors. That is why, when we did it in California, we had bipartisan support, including having the support from the business community.

That is the spirit, at least, in which I am offering the amendment. I don't think it would be, from a cost-benefit standard, very hard for the SEC to provide this information to Congress so that, as these forms continue to move throughout the States, we have a better understanding. That is the purpose and the spirit of the amendment.

Mr. Chairman, I yield back the balance of my time.

Mr. HENSARLING. Mr. Chairman, I yield back the balance of my time.

The Acting CHAIR. The question is on the amendment offered by the gentleman from California (Mr. DESAULNIER).

The question was taken; and the Acting Chair announced that the noes appeared to have it.

Mr. DESAULNIER. Mr. Chairman, I demand a recorded vote.

The Acting CHAIR. Pursuant to clause 6 of rule XVIII, further proceedings on the amendment offered by the gentleman from California will be postponed.

AMENDMENT NO. 2 OFFERED BY MR. HUIZENGA OF MICHIGAN

The Acting CHAIR. It is now in order to consider amendment No. 2 printed in part A of House Report 114–414.

Mr. HUIZENGA of Michigan. Mr. Chairman, I offer an amendment.

The Acting CHAIR. The Clerk will designate the amendment.

The text of the amendment is as follows:

Page 9, after line 16, insert the following:

''(iii) Engages on behalf of any party in a transaction involving a public shell company.

''(C) DISQUALIFICATIONS.—An M&A broker is not exempt from registration under this paragraph if such broker is subject to—

''(i) suspension or revocation of registration under paragraph (4);

''(ii) a statutory disqualification described in section 3(a)(39);

''(iii) a disqualification under the rules adopted by the Commission under section 926 of the Investor Protection and Securities Reform Act of 2010 (15 U.S.C. 77d note); or

''(iv) a final order described in paragraph (4)(H).''.

Page 9, line 17, strike ''(C)'' and insert ''(D)''.

Page 9, line 23, strike ''(D)'' and insert ''(E)''.

Page 10, line 23, insert ''privately held'' after ''means a''.

Page 13, beginning on line 6, strike ''year-end balance sheet'' and all that follows through ''report of the independent auditor'' and insert ''fiscal year-end financial statements of the issuer of the securities as customarily prepared by the management of the issuer in the normal course of operations and, if the financial statements of the issuer are audited, reviewed, or compiled, any related statement by the independent accountant''.

Page 13, after line 20, insert the following:

''(iv) PUBLIC SHELL COMPANY.—The term 'public shell company' is a company that at the time of a transaction with an eligible privately held company—

''(I) has any class of securities registered, or required to be registered, with the Commission under section 12 or that is required to file reports pursuant to subsection (d);

''(II) has no or nominal operations; and

''(III) has—

''(aa) no or nominal assets;

''(bb) assets consisting solely of cash and cash equivalents; or

''(cc) assets consisting of any amount of cash and cash equivalents and nominal other assets.''.

Page 13, line 21, strike ''(E)'' and insert ''(F)''.

Page 14, beginning on line 2, strike ''subparagraph (D)(ii)(II)'' and insert ''subparagraph (E)(ii)(II)''.

The Acting CHAIR. Pursuant to House Resolution 595, the gentleman from Michigan (Mr. HUIZENGA) and a Member opposed each will control 5 minutes.

The Chair recognizes the gentleman.

Mr. HUIZENGA of Michigan. Mr. Chairman, it has been estimated that approximately $10 trillion—with a T, 12 zeros—worth of small, privately owned, and family-operated businesses will be sold or closed in the coming years as baby boomers retire. Mergers and acquisitions brokers, or M&A brokers as they are often called, will play a critical role in facilitating the transfer of ownership of these small, privately held companies.

If you were here earlier today, you would have heard me issue a red herring alert. This is exhibit A, what we are dealing with right now, as to what that red herring alert is and as you are hearing from my colleagues on the other side of the aisle. This is exhibit A, what I used to use as an example of Washington working.

Last Congress, I had this exact bill, and it passed this body unanimously. Let me repeat that—unanimously. There were zero votes against it. It went on as a suspension bill. It went on suspension because it was noncontroversial. It was agreed that this was the right direction to go. Unfortunately, I now have to use this bill and my portion—this amendment that we are dealing with—as an example of how D.C. is broken, and we wonder why the American people are cynical. Let's get to the heart of the matter.

Why do we need to do this? Why do we need to address this particular issue regarding these M&A brokers?

Today, Federal securities regulations require an M&A broker to be registered and regulated by the Securities and Exchange Commission and FINRA, just like Wall Street investment bankers who buy and sell publicly traded companies. So let's just get this point clear. These are not folks on Wall Street. These are folks in Holland, Michigan, in Grand Rapids, Michigan, in California, in Texas, in Florida, and anywhere else that one is selling a small, family-owned business. That is right. Anyone who is dealing with a sale or who is brokering the sale of a business anywhere in America is forced to register with the Federal Government and be regulated as a securities broker-dealer regardless of the size of the business or the sale transaction. This red tape is, of course, in addition to the State laws that already regulate those transfers.

How did we get here?

This bill corrects an unintended consequence of a 1985 Supreme Court ruling that overturned a lower court that

created the sale of business doctrine. Prior to that decision, private company sales were exempted from Federal regulation. Since 1985, the SEC has issued many nonaction—or no action—letters that, under various but differing factual circumstances, have granted relief for M&A brokers. However, the other side is not willing to actually put it into law.

Let's be clear. Title III of H.R. 1675 does not do away and does not change in any way, affect, or limit the SEC's jurisdiction or powers to investigate and enforce Federal securities laws. Rather, it simply exempts M&A brokers from SEC registration as broker-dealers, which makes the transfer of these small, family-owned businesses affordable. In fact, what do you do when you own a small family business? I own one. If I am able to save money on one side, I am able to invest it into my employees, and I am able to invest it into the equipment that is in my business.

Federal securities regulation is primarily designed to protect passive investors in public security markets. Passive investors are people like you and me who might just buy a share in a company somewhere. Privately negotiated M&A transactions are vastly different and benefit little from SEC and FINRA registration and regulation but are burdened by the same regulatory requirements, obligations, and associated costs. M&A brokers, themselves, are small businesses.

Title III of H.R. 1675 includes my bipartisan legislation, H.R. 686, the Small Business Mergers, Acquisitions, Sales, and Brokerage Simplification Act, which would create a simplified system for brokers facilitating the transfer of ownership of small, privately held companies. Yes, it was a bipartisan bill that passed our committee.

My amendment would further clarify two things:

First, any broker or associated person who is subject to suspension or revocation of registration is disqualified from the exemption. In other words, if you are a bad actor, you are exempted. You are not allowed to take part in this;

Second is the inapplicability of the exemption to any M&A transaction where one party or more is a shell company. We heard that being brought up as a reason we shouldn't be doing this. Again, we offer an exemption. If there is a shell company, that is not allowed to be used.

By including these additional investor protections—let me repeat, ''additional''—this amendment strikes an appropriate balance between the legitimate interests of all stakeholders and maintains strong protections for investors and small businesses.

Today, Mr. Chairman, I just hope that we will see some common sense, that we will not chase after the red herrings that are being thrown out there, and that we will support H.R. 1675.

I yield back the balance of my time.

Ms. MAXINE WATERS of California. Mr. Chairman, I rise in opposition to the amendment even though I am not opposed to the amendment.

The Acting CHAIR. Without objection, the gentlewoman from California is recognized for 5 minutes.

There was no objection.

Ms. MAXINE WATERS of California. Mr. Chairman, I would like to thank Mr. HUIZENGA for addressing one of the many glaring problems with this bill.

Title III of this bill significantly expands an exemption granted by the SEC to certain brokers but without providing the significant protections the SEC deemed important for small businesses or investors.

This amendment would prevent people who have committed fraud and securities violations—individuals who couldn't sell used stock but who could sell your small business in the underlying bill—from claiming this exemption.

However, why does the amendment limit the bad actor provision to just this title? Why not make it explicit that persons and companies that have committed fraud are not eligible to take advantage of any of the exemptions provided in this act?

I also appreciate that the amendment prevents public shell companies from taking advantage of this title, which would otherwise allow private companies to circumvent important public company disclosure requirements.

Mr. Chairman, I would like to know why the author completely ignores the other six investor protections in the SEC's no action relief. I am not aware of any witness before our committee who explained how these other investor protections were burdensome. Indeed, they seemed like commonsense protections.

For example, the SEC required merger and acquisition brokers who represent both parties of the transaction to obtain the consent of both parties to that conflict of interest. Similarly, the SEC prohibited M&A brokers from engaging in private placements and arranging buyer financing because the narrow exemption from registration is intended for persons who fairly facilitate the merger of small businesses, not for the promoters who are compensated for their ability to hype up the value of the companies and attract new investment.

□ 1530

If Republicans truly wanted to codify the SEC's administrative action to provide legal certainty for these brokers, then they should have accepted the Democratic amendment adding back in these protections. But that isn't the point of this bill, and this amendment is just a sleight of hand that all is well.

Let me just mention here that registered broker-dealers are subject to a variety of regulatory requirements that nonbroker-dealer M&A advisers are not, including, without limitation, regarding antimoney laundering, privacy of customer information, supervisory reporting and recordkeeping requirements, inspections by the SEC and SRO, such as FINRA, supervision and regulation of employees' trading and outside business activities, insider trading, and regulations governing interactions between a broker-dealer's investment banking and research departments.

H.R. 686 risks promoting lower standards and less rigor and regulatory oversight in the providing of this important advice.

It is worthy to add that SIFMA is opposed to the amendment.

I yield back the balance of my time.

The Acting CHAIR. The question is on the amendment offered by the gentleman from Michigan (Mr. HUIZENGA).

The amendment was agreed to.

AMENDMENT NO. 3 OFFERED BY MR. SHERMAN

The Acting CHAIR. It is now in order to consider amendment No. 3 printed in part A of House Report 114–414.

Mr. SHERMAN. Mr. Chairman, I offer my amendment.

The Acting CHAIR. The Clerk will designate the amendment.

The text of the amendment is as follows:

Page 9, after line 16, insert the following:

''(C) DISQUALIFICATION FOR CERTAIN CONDUCT.—An M&A broker may not make use of the exemption under this paragraph if the broker—

''(i) has been barred from association with a broker or dealer by the Commission, any State, or any self-regulatory organization; or

''(ii) is suspended from association with a broker or dealer.

''(D) TRANSACTIONS INVOLVING SHELL COMPANIES PROHIBITED.—

''(i) IN GENERAL.—An M&A broker making use of the exemption under this paragraph may not engage in a transaction involving a shell company, other than a business combination related shell company.

''(ii) SHELL COMPANY DEFINED.—In this subparagraph, the term 'shell company' means a company that—

''(I) has no or nominal operations; and

''(II) has—

''(aa) no or nominal assets;

''(bb) assets consisting solely of cash and cash equivalents; or

''(cc) assets consisting of any amount of cash and cash equivalents and nominal other assets.

''(iii) BUSINESS COMBINATION RELATED SHELL COMPANY DEFINED.—In this subparagraph, the term 'business combination related shell company' means a shell company that is formed by an entity that is not a shell company solely for the purpose of—

''(I) changing the corporate domicile of such entity solely within the United States; or

''(II) completing a business combination transaction (as defined in section 230.165(f) of title 17, Code of Federal Regulations) among one or more entities other than the shell company, none of which is a shell company.

''(E) FINANCING BY M&A BROKERS PROHIBITED.—An M&A broker may not provide financing, either directly or indirectly, related to the transfer of ownership of an eligible privately held company.

''(F) DISCLOSURE AND CONSENT.—To the extent an M&A broker represents both buyers and sellers of an eligible privately held company, the broker shall provide clear written

disclosure as to the parties the broker represents and obtain written consent from all parties to the joint representation.

''(G) PASSIVE BUYERS PROHIBITED.—An M&A broker may not engage in a transaction involving the transfer of ownership of an eligible privately held company to a passive buyer or group of passive buyers.

''(H) NO AUTHORITY TO BIND PARTY TO TRANSFER.—The M&A broker may not bind a party to a transfer of ownership of an eligible privately held company.

''(I) RESTRICTED SECURITIES.—Any securities purchased or received by the buyer or M&A broker in connection with the transfer of ownership of an eligible privately held company are restricted securities (as defined in section 230.144(a)(3) of title 17, Code of Federal Regulations).

Page 10, line 8, insert '', and'' after ''officer''.

Page 10, beginning on line 11, strike ''20 percent'' and insert ''25 percent''.

Page 10, line 14, strike ''20 percent'' and insert ''25 percent''.

Page 10, line 19, strike ''20 percent'' and insert ''25 percent''.

Page 12, beginning on line 19, strike ''will be active in the management of'' and insert ''will actively operate''.

The Acting CHAIR. Pursuant to House Resolution 595, the gentleman from California (Mr. SHERMAN) and a Member opposed each will control 5 minutes.

The Chair recognizes the gentleman from California.

Mr. SHERMAN. Mr. Chairman, there may be some acrimony on the floor from time to time, but I think we are mostly in agreement.

The SEC, under some tutelage from the committee, in January of 2014 issued its no-action letter providing that, in certain circumstances, a small business merger or acquisitions broker would not have to register. They issued this in January of 2014.

The gentleman from Michigan brought forward a good bill designed to codify that decision by the SEC, but he did not in his codification include six of the limitations that the SEC had in its no-action letter.

Now he has brought forward and I think we just adopted an amendment to add to his bill the two most important limitations that the SEC had in its no-action letter.

It excludes from the exemption those who have been bad actors in the past and barred from association with broker-dealers, and it excludes shell companies.

As far as it goes, I think that is a good amendment. I am glad we adopted it.

But if we are going to deal with this area with statute, we should take a look at the other exclusions from the exemption that the SEC included in its no-action letter.

The amendment that is before us today is the same amendment I offered in committee. It does everything that the gentleman from Michigan's amendment does and takes the additional exclusions that the SEC had in its no-action letter.

The most important of these is to require that, to be eligible, a broker would have to disclose to both parties and get consent from both parties if they are getting paid by both parties.

So if you are getting a seller's commission and a buyer's commission, you would tell the buyer and the seller that that is the case. This amendment would add that as a requirement for the exemption.

We would also have, as the SEC had in its no-action letter, an exclusion where there are passive buyers. So this is the amendment I offered in committee. It includes the amendment that we just adopted. It includes the other exclusions from the exemption that the SEC adopted.

None of the SEC's exclusions from its exemption have been controversial. So I would like to go beyond the gentleman from Michigan's amendment and include all of those exclusions from the exemption.

I reserve the balance of my time.

Mr. HENSARLING. Mr. Chairman, I claim the time in opposition.

The Acting CHAIR. The gentleman from Texas is recognized for 5 minutes.

Mr. HENSARLING. Mr. Chairman, I do appreciate the gentleman from California's amendment. I think there are a lot of well-thought ideas here. I appreciate the sentiment by which he approached the amendment.

I do believe, though, that, in this particular case, this amendment goes a little bit too far in the wrong direction and ultimately can prove to hurt a number of small businesses and economic growth.

Number one, a lot of what the gentleman is trying to achieve I think has already been achieved in the amendment by the gentleman from Michigan that we just approved on voice vote here on the floor.

I would also add that, with the amendment from the gentleman from Michigan, who has the underlying title of this bill, the language now is identical to the bipartisan Senate language.

We know how difficult it is to get laws passed. I think it is important, where we can, to align the language with the other side of the Capitol. I think this could ease passage of a bill which is bipartisan, again, on both ends of the Capitol.

Again, I appreciate what the gentleman from California is trying to do, but I think that the gentleman from Michigan strikes the appropriate balance.

Mr. SHERMAN. Will the gentleman yield?

Mr. HENSARLING. I yield to the gentleman from California.

Mr. SHERMAN. Mr. Chair, there might be some advantage to having language identical to the Senate, if the bill was identical to a Senate bill.

In this case, this title is being added to five other titles. In the committee, we dealt with it as six separate bills. Here on the floor, it is one bill. So there is no particular advantage to conforming to the Senate.

If the Senate language does not exclude from the exemption those brokers that fail to disclose that they are representing both sides, then that proves the additional wisdom——

Mr. HENSARLING. Mr. Chairman, reclaiming my time. I appreciate the gentleman's pushback, but I am still not going to quite see things his way.

I believe that the gentleman from Michigan strikes the proper balance here, particularly at a time when, again, our working families are struggling and this economy is limping along. We had a fourth-quarter GDP report where this economy was barely on life support systems.

We have to jump-start our small businesses. We have to jump-start capital formation. The gentleman from Michigan has the right balance.

I reserve the balance of my time.

Mr. SHERMAN. Mr. Chairman, we have tough economic conditions out in our country. We need more jobs. We need business to operate smoothly.

How many jobs do we create by telling merger and acquisition brokers that they can get fees from the seller and get fees from the buyer and not tell either party that they are getting paid by both parties?

That is not an essential element. That failure to disclose is not an essential element of rejuvenating the American economy.

This bill is not identical to the Senate bill because this bill has six titles. The Senate bill has one title.

Here is a chance for the House to show its superior wisdom to include language that neither the author of the bill nor the chairman of the committee argues against in substance to add language that says that, if you want to enjoy this exemption, you have to tell both parties that you are being paid by both parties if, indeed, you are being paid by both parties.

So this additional disclosure requirement is good on the merits. It does nothing to delay the adoption of the additional legislation. I am confident that a rejuvenation of our economy does not require that we conceal from those who are buying and selling businesses the fact that their broker is getting paid by both sides. Let's provide for full disclosure. Let's revitalize the economy.

I yield back the balance of my time.

Mr. HENSARLING. Mr. Chairman, I yield the balance of my time to the gentleman from Michigan (Mr. HUIZENGA).

Mr. HUIZENGA of Michigan. Mr. Chairman, I appreciate the efforts of my colleague from California. We have worked well on a number of these issues.

I would point out, though, that maybe not you, but some others are trying to act like this is the monumental thing whereas mergers and acquisitions are going to fail or flounder whether your amendment is passed.

While it may be of some interest and I think it has some things that are either benign or not terribly objectionable, we do know—and I think we probably would both jointly agree—that oftentimes our problem isn't between us. It is between trying to get this body and the Senate to agree. If we can have one less thing to have a disagreement with them on as we are advancing this, I am all for it.

I will specifically say subsection (C) on page 1, as you are talking about, my amendment adds what you have in there and more bad actor disqualifications. Actually, your amendment would roll that back. I don't think that was your intention, but that is what it would do.

In subsection (D), our amendment adds the same disqualification, but is shorter and simpler to understand, which is also important as we are dealing with the Senate.

In subsection (E), there is no apparent reason to prevent private business sellers and buyers from getting a transaction fee from a bank that is affiliated with an M&A broker. There shouldn't be some sort of exclusion on that.

In subsection (F), it is highly, highly unusual that an M&A broker would work for both the seller and the buyer in the same transaction. So I think this is maybe a section in search of a problem.

Subsection (G), adding this prohibition is frankly redundant, in our view, and could cause some more confusion.

In subsection (H), the reasonable belief element sort of does the same thing. I am not sure what we are trying to get at other than maybe causing some more confusion. It is not, again, an intention of that but is what it would do.

Subsection (I) is simply restating the existing law.

So I think, as we are going through this, we are not wildly out of disagreement. I just believe that the amendment that was offered and passed earlier, which puts us in line, again, with the efforts of the Senate, is a better way to go.

Again, to my friend from California, this is not you that I will direct this at, but others on your side of the aisle who are pointing to the no-action letter as the reason why we don't have to do this legislation.

Yet, now we are saying we have to pass your amendment because it is only a no-action letter and we need this into the law. So we can't have it both ways.

Mr. HENSARLING. Mr. Chairman, I yield back the balance of my time.

The Acting CHAIR. The question is on the amendment offered by the gentleman from California (Mr. SHERMAN).

The amendment was rejected.

The Acting CHAIR. The Committee will rise informally.

The Speaker pro tempore (Mr. THORNBERRY) assumed the chair.

MESSAGE FROM THE PRESIDENT

A message in writing from the President of the United States was communicated to the House by Mr. Brian Pate, one of his secretaries.

The SPEAKER pro tempore. The Committee will resume its sitting.

ENCOURAGING EMPLOYEE OWNERSHIP ACT OF 2015

The Committee resumed its sitting.

The Acting CHAIR (Mr. BYRNE). It is now in order to consider amendment No. 4 printed in part A of House Report 114–414, which the Chair understands will not be offered.

It is now in order to consider amendment No. 5 printed in part A of House Report 114–414, which the Chair understands will not be offered.

AMENDMENT NO. 6 OFFERED BY MR. ISSA

The Acting CHAIR. It is now in order to consider amendment No. 6 printed in part A of House Report 114–414.

Mr. ISSA. Mr. Chairman, I have an amendment at the desk.

The Acting CHAIR. The Clerk will designate the amendment.

The text of the amendment is as follows:

Page 16, after line 9, insert the following:

(d) LIMITATION TO NEW FILERS.—The exemptions set forth in subsections (a) and (b) shall apply only with respect to issuers that are first required to file financial statements and other periodic reporting with the Commission under the securities laws after the date of the enactment of this Act.

The Acting CHAIR. Pursuant to House Resolution 595, the gentleman from California (Mr. ISSA) and a Member opposed each will control 5 minutes.

The Chair recognizes the gentleman from California.

Mr. ISSA. Mr. Chair, my amendment quite simply makes this bill better. Since 2011, almost 5 years, virtually every single public company has reported financial statements to the SEC by electronic, searchable, readable data format, often called XBRL.

□ 1545

This searchable data allows the investor community to look through data in a way they never could under paper, and its accuracy is as good or as bad as the source material that goes onto that paper.

Now, both the author of the bill and myself agree on one thing: printing paper and sending electronic format is outdated. There is no question at all that the SEC, the Securities and Exchange Commission, is long overdue to convert to an all-electronic filing.

As a matter of fact, for most of the people that will be listening and watching today, they are already electronically filing their income tax and then printing out a paper copy to stick in a drawer. The idea that a public company who spends two, three, four or more millions of dollars in compliance every year would file paper, and then that paper would be electronically scanned, sent to India, converted to data, and then analyzed by the investment community is truly about the most backwards way one could imagine doing it.

What my amendment to Mr. HURT's bill that is enclosed in the larger bill says is, we understand that some small startup companies, even though they are going public, may have a difficult time transitioning, and the idea that they would be allowed to go optional, as Congressman HURT's bill intends, is acceptable if, in fact, it is for a short period of time, as the eventual transition to all-electronic filing goes forward.

The many thousands of companies who have been successfully filing electronically and who have software that makes it simply a push of a button, coming off of this would, in fact, be a giant step backwards.

As we go toward all-electronic filing and the elimination of the absurdity of paper as the standard of the Securities and Exchange Commission, we only ask that this provision be one that is focused on new companies for a short period of time. That is the reason the amendment takes the 5-year exemption to all companies to be simply an exemption to new IPOs; in other words, companies that may not at the time of their public offering already have the software in place to do this filing.

Mr. Chairman, I reserve the balance of my time.

Mr. HENSARLING. Mr. Chairman, I claim the time in gentle opposition.

The Acting CHAIR. The gentleman from Texas is recognized for 5 minutes.

Mr. HENSARLING. Mr. Chairman, I say I rise in gentle opposition—I do not say that tongue in cheek—because the gentleman from California is highly respected as a Member of this body. His opinions are respected as an entrepreneur and as a small-business individual. His acumen is respected as an investor, and so it is not a pleasant experience to oppose one of his amendments. I appreciate the sentiment with which he offers it.

I would just remind all that title IV of the bill provides an optional exemption from the XBRL data filing requirements for emerging growth and smaller public companies for a limited period of time. I think there is an open question. One thing that the gentleman didn't get the benefit of was hearing all the testimony that we had within our committee. There was a lot of testimony about just how costly this is to a number of these companies.

Now, if the investing public demands it, then smaller companies will do it. For example, there was a Sarbanes-Oxley exemption for some smaller companies and only roughly half of them took it because for certain smaller companies what they found out was, well, the investors demanded it.

I would say, again, why don't we let the free market determine this. We are not talking about the types of information that are provided in disclosure. We